H1 2018

Interim Financial Report

Six-month period as of June 30, 2018

Sunrise

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Financial KPIs

CHF million	**H1 2018 as reported**	H1 2018 without IFRS 15	H1 2017[1]	Change of reported H1 2018 to H1 2017 (%)	**Q2 2018 as reported**	Q2 2018 without IFRS 15	Q2 2017[1]	Change of reported Q2 2018 to Q2 2017 (%)
Revenue								
Mobile services	617	617	582	6.1	315	315	303	4.0
– *Thereof mobile postpaid*	*392*	*394*	*373*	*5.3*	*203*	*203*	*192*	*5.6*
– *Thereof mobile prepaid*	*50*	*50*	*63*	*(19.9)*	*25*	*25*	*32*	*(22.8)*
– *Thereof mobile hardware*	*131*	*130*	*107*	*22.0*	*65*	*65*	*60*	*9.3*
Landline services (incl. voice)	168	168	186	(9.7)	79	79	91	(13.3)
– *Thereof landline voice*	*63*	*63*	*71*	*(11.3)*	*31*	*31*	*35*	*(10.1)*
– *Thereof hubbing*	*54*	*54*	*60*	*(10.7)*	*23*	*23*	*30*	*(22.0)*
Landline Internet and TV	136	136	117	16.4	69	69	60	15.8
Total revenue	**921**	**921**	**884**	**4.1**	**463**	**462**	**453**	**2.1**
Service revenue excl. hubbing & mobile hardware	736	738	717	2.7	374	375	364	2.8
Gross profit	**597**	**599**	**584**	**2.2**	**303**	**304**	**298**	**1.9**
% margin	64.8%	65.0%	66.0%		65.6%	65.8%	65.7%	
% margin (excl. hubbing & hardware revenue)	81.0%	81.2%	81.5%		81.0%	81.2%	81.8%	
EBITDA	**284**	**280**	**290**	**(2.2)**	**147**	**145**	**149**	**(1.4)**
EBITDA adjusted	**290**	**286**	**295**	**(1.9)**	**150**	**148**	**153**	**(1.8)**
% margin	31.5%	31.0%	33.4%		32.4%	32.0%	33.7%	
% margin (excl. hubbing & hardware revenue)	39.4%	38.7%	41.2%		40.0%	39.5%	41.9%	
Net income	**41**	**38**	**40**	**2.9**	**24**	**22**	**27**	**(10.1)**
Cash flow								
Reported EBITDA	284	280	290	(2.2)	147	145	149	(1.4)
Change in NWC	(31)	(27)	18	(273.6)	(15)	(13)	32	(148.2)
Net interest	(18)	(18)	(22)	(18.7)	(12)	(12)	(8)	51.4
Tax	(28)	(28)	(11)	143.5	(5)	(5)	(5)	15.6
CAPEX	(154)	(154)	(147)	5.1	(82)	(82)	(86)	(5.5)
Other financing activities	(20)	(20)	(17)	14.7	(0)	(0)	(0)	193.7
Equity free cash flow	**34**	**34**	**111**	**(69.4)**	**33**	**33**	**82**	**(60.2)**
Other[2]	13	13	(154)	(108.4)	6	6	(153)	(103.9)
Total cash flow	**47**	**47**	**(43)**	**(209.2)**	**39**	**39**	**(71)**	**(154.9)**
Net debt	**1,297**		**1,700**	**(23.7)**	**1,297**		**1,700**	**(23.7)**
Net debt / adj. EBITDA (LTM)	2.2×		2.8×		2.2×		2.8×	
Net debt / pro forma adj. EBITDA (LTM)[3]	2.2×				2.2×			

[1] The Company has initially applied IFRS 15 and IFRS 9 using the partial retrospective method. Under this method, the comparative information is not restated (see Condensed Consolidated Interim Financial Statements Note 4).
[2] H1 2018 consist of dividend payment of CHF 180 million, cash inflow due to the refinancing of CHF 187 million and sale of property, plant and equipment of CHF 7 million.
[3] Based on pro forma adjusted EBITDA taking into account annualized network service fees related to tower disposal.

Operational KPIs

	H1 2018 as reported	H1 2018 without IFRS 15	H1 2017[1]	Change of reported H1 2018 to H1 2017 (%)	**Q2 2018 as reported**	Q2 2018 without IFRS 15	Q2 2017[1]	Change of reported Q2 2018 to Q2 2017 (%)
ARPU (CHF)								
Mobile blended	**31.4**	**31.5**	**31.2**	**0.6**	**32.3**	**32.3**	**32.0**	**0.8**
Postpaid	40.2	40.4	41.1	(2.2)	41.1	41.2	41.9	(1.8)
– *Thereof origination*	*37.3*	*37.5*	*37.8*	*(1.2)*	*38.3*	*38.4*	*38.6*	*(0.7)*
– *Thereof termination*	*2.9*	*2.9*	*3.4*	*(13.6)*	*2.8*	*2.8*	*3.3*	*(14.5)*
Prepaid	11.5	11.5	12.8	(9.8)	11.7	11.7	13.2	(11.5)
Landline blended	**68.6**	**68.6**	**68.0**	**0.9**	**68.5**	**68.5**	**67.6**	**1.4**
Landline voice	23.4	23.4	27.7	(15.6)	22.9	22.9	26.8	(14.5)
Internet	35.8	35.7	35.2	1.8	35.8	35.7	35.1	1.9
Internet and TV	49.2	49.2	46.9	4.9	49.2	49.2	47.0	4.8
Subscription base (in thousand)								
Mobile								
Postpaid	1,655.4		1,536.5	7.7				
– *Primary*	*1,355.0*		*1,272.5*	*6.5*				
– *Secondary*	*300.4*		*264.0*	*13.8*				
Prepaid (3-month rule)	687.0		805.1	(14.7)				
Prepaid (12-month rule)	1,185.2		1,360.2	(12.9)				
Landline								
Landline voice	453.1		428.8	5.7				
Internet	441.8		398.1	11.0				
– *Thereof coupled to TV*	*229.4*		*187.6*	*22.3*				
– *Thereof without TV*	*212.4*		*210.5*	*0.9*				
LTM Churn (%)								
Postpaid	13.9		13.6	1.9				
Landline	15.4		13.7	12.1				
Employees								
FTEs	1,594		1,643	(3.0)				
Apprentices	124		106	17.0				

[1] The Company has initially applied IFRS 15 and IFRS 9 using the partial retrospective method. Under this method, the comparative information is not restated (see Condensed Consolidated Interim Financial Statements Note 4).

Financial Review

Financial Summary

Revenue increased by 4.1% year-over-year and was driven by customer growth in mobile postpaid and landline Internet as well as higher handset prices of new products. Adjusted EBITDA in H1 2018 decreased by 1.9% due to higher network service fees following the disposal of the subsidiary Swiss Towers AG in August 2017. Excluding those higher network service fees as well as the IFRS 15 impact, adjusted EBITDA rose by 2.7% year-over-year.

Major Events

Refinancing transactions

In Q2 2018 the Group has completed the amendment and extension as well as re-pricing of its existing senior facilities agreement. The existing term loan B facility ("TLB") has been increased by CHF 500 million to CHF 1,410 million. The revolving credit facility ("RCF") remains unchanged at CHF 200 million and is currently undrawn. The leverage dependent margins of the facilities were reduced by 25 and 30 bps throughout the margin grid for the TLB and the RCF, respectively. The new facilities have a maturity of 5 years. The proceeds of the increased TLB were used to redeem the outstanding CHF 500 million 2.125% senior secured notes due March 2022. Furthermore, the Group placed CHF 200 million inaugural Swiss domestic senior secured notes due 2024 with a coupon of 1.5%. The issue price was set at 100.2% of the nominal amount and redemption will be at par.

The refinancing had the following impacts on the condensed consolidated interim financial statements:

- Positive net impact of CHF 187 million on cash flow in financing activities (repayment of CHF 500 million senior secured notes and additional CHF 5 million early redemption fee, issuance of CHF 200 million senior secured notes and extension of CHF 500 million TLB, minus CHF 8 million transaction costs);
- Increase to CHF 1,567 million in non-current portion of loans and notes in the consolidated interim statements of financial positions (refer to Note 11);
- Increase of financial expenses in Q2 2018 of CHF 9 million, of which CHF 5 million relate to an early redemption fee for the CHF 500 million notes redemption and CHF 4 million are due to the release of capitalized debt issuance costs (refer to Note 11);
- Increase of financial income by CHF 15 million and of interest expenses by CHF 1 million in Q2 2018 due to applying IFRS 9 debt modification adjustments related to the re-pricing of the existing term loan B.

IFRS 15 Impact for H1 2018

IFRS 15 Revenue from contracts with customers is effective for annual reporting periods beginning on January 1, 2018. The IFRS 15 impact in H1 2018 is mainly related to the capitalization of costs to obtain a contract, resulting in an increase of CHF 4 million in adjusted EBITDA. The positive impact of applying IFRS 15 on EBITDA becomes immaterial in 2020.

The table below summarizes the immaterial impact of applying IFRS 15 in the segments residential and business.

CHFk January 1 – June 30	RESIDENTIAL 2018	2017[1]	Change (%)	BUSINESS 2018	2017[1]	Change (%)
Revenue reported	**661,424**	**626,865**	**5.5**	**135,120**	**129,448**	**4.4**
IFRS 15 impact	(134)	–		380	–	
Revenue excluding IFRS 15	661,290	626,865	5.5	135,500	129,448	4.7
Gross Profit reported	**447,851**	**438,874**	**2.0**	**90,029**	**89,866**	**0.2**
IFRS 15 impact	(134)	–		2,383	–	
Gross Profit excluding IFRS 15	447,717	438,874	2.0	92,412	89,866	2.8
EBITDA reported	**354,328**	**340,581**	**4.0**	**58,760**	**62,483**	**(6.0)**
IFRS 15 impact	(3,962)	–		(71)	–	
EBITDA excluding IFRS 15	350,366	340,581	2.9	58,689	62,483	(6.1)

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

Revenue

The Sunrise Group financial results for the six-month period ended June 30, 2018, showed an increase in total revenue of 4.1% (including IFRS 15) mainly driven by higher service revenue (mobile postpaid and landline Internet) and mobile hardware revenue. The initial application of IFRS 15 as of January 1, 2018, led to a revenue decrease of 0.1%. Consequently, the revenue increased by 4.2% excluding the IFRS 15 impact.

Mobile Services

Revenue from mobile services increased by 6.1% to CHF 617 million due to mobile postpaid growth and increased hardware sales which exceeded the decline in mobile prepaid.

While the postpaid subscription base increased by 7.7% year-over-year, postpaid revenue increased by 5.3% in H1 2018 due to a slightly lower average revenue per user (ARPU).

The year-over-year postpaid ARPU reduction of CHF 0.9 was mainly driven by secondary SIM dilution. The postpaid subscription base totaled 1,655 thousand subscribers as of June 30, 2018 (June 30, 2017: 1,537 thousand). The subscription base increase was driven by high network quality, good customer experience, prepaid to postpaid migration, as well as competitive mobile data plans. The continuous growth of mobile data traffic is reflected in the increase of secondary subscriptions (such as secondary SIM-cards used for data) used by customers in addition to their primary subscriptions.

Mobile prepaid revenue declined year-over-year due to a decreasing subscription base and lower ARPU (CHF −1.3). The prepaid subscription base shrank year-over-year by 14.7% to 687 thousand subscribers as of June 30, 2018. High value prepaid customers migrating to postpaid, strengthened focus on value management, less international prepaid calls related to more attractive postpaid offers and increased OTT usage contributed to the change.

Hardware revenue (low margin) increased year-over-year by 22.0% to CHF 131 million for the six-month period ended June 30, 2018. Average hardware prices were higher than in previous years due to the launch of higher priced handsets. Hardware revenue also depends on handset innovation/launches and on volatile sales to retailers.

Landline Services

Landline services revenue decreased by 9.7% to CHF 168 million in H1 2018, mainly driven by lower retail voice and hubbing revenue.

Landline voice revenue decreased by 11.3% to CHF 63 million caused by fixed-to-mobile substitution, voice flat rates and increased use of OTT services. Hubbing revenue, which is low margin, decreased by 10.7% to CHF 54 million.

Landline Internet and TV

Internet and TV revenue increased by 16.4% to CHF 136 million in H1 2018.

The total Internet subscription base increased by 11.0% year-over-year to 442 thousand subscriptions. The revenue increase was also supported by 4.9% growth of Internet and TV blended ARPU. The TV product, that can be purchased alongside Internet service, increased its customer base by 22.3% year-over-year to 229 thousand subscribers. Customer growth was supported by convergence benefits including the Sunrise One offer, and by enhanced TV sports content.

Transmission Costs and Cost of Goods Sold

Transmission costs and cost of goods sold totaled CHF 324 million in H1 2018: an increase of 8.0% year-over-year, mostly driven by higher handset sales.

Gross profit came in at CHF 597 million with a 2.2% growth. The initial application of IFRS 15 as of January 1, 2018 led to 0.4% gross profit decrease. Consequently, gross profit increased by 2.5% excluding the impact of IFRS 15. The increase in gross profit is slightly lower than the increase in revenue, as revenue growth from mobile hardware has below group average gross margins.

Adjusted EBITDA

Adjusted EBITDA as of June 30, 2018, amounted to CHF 290 million, showing a year-over-year decrease of 1.9%. The initial application of IFRS 15 as of January 1, 2018, led to a CHF 4 million or 1.4% higher (adjusted) EBITDA. Consequently, adjusted EBITDA decreased year-over-year by 10 million or 3.3% excluding the impact of IFRS 15. Excluding the higher network service fees after the sale of Swiss Towers AG, adjusted EBITDA (excl. IFRS 15) increased by CHF 8 million (2.7%). This was supported by gross profit growth which was partly offset by higher operational expenses, as cost savings have been reinvested into commercial momentum.

The table below shows one-time adjustments from reported EBITDA to adjusted EBITDA for the first six months in 2018 and 2017. The biggest adjustments stem from non-recurring, non-operating events and include early employee contract terminations (CHF 2 million), advisory fees related to the set-up/preparation of the frequency auction (CHF 2 million) and other operating expenses related to the refinancing transaction (CHF 1 million).

CHFk	**H1 2018**	H1 2017
Reported EBITDA	**284,048**	**290,310**
Prior-year-related events	(1,404)	(2,133)
Non-recurring and / or non-operating events	6,288	6,826
Costs relatd to share-based payment	902	397
Adjusted EBITDA	**289,834**	**295,400**

Reported EBITDA

The Group generated an EBITDA of CHF 284 million for the six-month period ended June 30, 2018, a year-over-year decrease of CHF 6 million or 2.2% from CHF 290 million for the same period in 2017. The year-over-year EBITDA decrease is mainly attributable to higher operating expenses following the sale of Swiss Towers AG. Due to the initial application of IFRS 15 as of January 1, 2018, EBITDA increased by CHF 4 million which is mainly related to the capitalization of costs to obtain a contract.

Other Operating Expenses

In H1 2018 other operating expenses increased by CHF 16 million or 8.6% from CHF 192 million to CHF 208 million year-over-year. This is mainly due to the higher network service fees as well as higher marketing costs and higher customer service investments in brands (Sunrise and ethnic brand). The initial application of IFRS 15 as of January 1, 2018, had a positive impact of CHF 5 million on other operating expenses.

Wages, Salaries and Pension Costs

Wages, salaries and pension costs totaled CHF 107 million for the six-month period ended June 30, 2018. This represents a 2.1% year-over-year increase due to one-time early employee contract terminations of CHF 2 million.

Although the pension fund of Sunrise Communications AG is overfunded by 21.9% as of December 31, 2017, according to Swiss GAAP FER 26, the Group reports a net pension liability of CHF 70 million in its condensed consolidated interim financial statements as of June 30, 2018. The different results are driven by differences in valuation methods; Swiss GAAP FER 26 prescribes a static valuation method whereas IFRS (IAS 19) requires the use of a dynamic valuation method. Therefore, the IFRS pension liability should not be considered a current cash liability based on current facts and circumstances. The decrease of CHF 15 million in the pension liability from CHF 85 million as of December 31, 2017, to CHF 70 million as of June 30, 2018, is mainly due to the change in the discount rate.

Other Income and Expenses, Net

Other expenses decreased by CHF 0.2 million for the six-month period ended in June 30, 2018, compared to the same period in the prior year. Other income decreased by CHF 0.4 million year-over-year. This is mainly attributable to lower sub-lease income partially offset by higher income related to early termination fees.

Net Income

The Group reported a net income of CHF 41 million for the six-month period ended June 30, 2018, a year-over-year improvement of CHF 1 million from a net income of CHF 40 million for the prior-year period. Lower net financial items of CHF 10 million year-over-year overcompensated the CHF 6 million lower operating income as well as higher tax expenses of CHF 3 million.

Amortization and Depreciation and Impairment Losses

Depreciation and amortization are in line with prior year. For the six-month period as of June 30, 2018, depreciation and amortization totaled CHF 212 million, of which CHF 64 million related to the amortization of purchased intangibles (CHF 64 million in H1 2017). Those intangibles, created in 2010 in the amount of CHF 1,477 million and amortized over a maximum of 10 years, are related to the acquisition of Sunrise by MCG in October 2010.

Net Financial Items

Net financial items for H1 2018 mainly consist of CHF 30 million financial expenses (H1 2017: CHF 25 million) as well as a one-time financial income of CHF 15 million (H1 2017: CHF nil) in order to comply with the IFRS 9 requirements regarding debt modification adjustments (re-pricing and extension of existing term loan B). It is equal to the difference between the present value of the cash flows under the original and modified terms discounted by the original effective interest rate. In connection with the refinancing, one-time expenses of CHF 9 million (refer to major events) were recorded leading to an increase of CHF 5 million in financial expenses year-over-year.

Income Taxes

For H1 2018 the net income tax expense of CHF 16 million (H1 2017: CHF 14 million) consists of a CHF 21 million (H1 2017: CHF 26 million) tax expense related to current income taxes and a tax benefit of CHF 5 million (H1 2017: CHF 12 million) related to the change in deferred taxes.

Net Working Capital

Net working capital represents short-term assets reduced by short-term liabilities.

Net working capital includes current assets and liabilities as well as non-current prepaid expenses, long-term trade receivables and deferred income. Changes in trade and other payables related to the mobile license and non-cash capital expenditures related to Indefeasible Rights of Use (IRU) are excluded.

For H1 2018 the change in net working capital resulted in a negative change of CHF 31 million. This is mainly driven by prepaid leases and maintenance contracts (negative change in other items of CHF 17 million) as well as IFRS 15 related to net working capital accounts (CHF 11 million). The negative changes in trade and other payables (CHF 72 million) caused by payments of mobile phones and tablets bought in Q4 2017 and roaming settlements were mostly offset by settlements of discounts on roaming and access lines (positive change in trade and other receivables of 52 million) as well as a reduction of inventory (positive change in inventory of CHF 17 million).

Compared to the same period in 2017, the change in net working capital for H1 2018 showed a decline of CHF 48 million mainly driven by the following effects: Applying new IFRS accounting standards (IFRS 15, IFRS 9) and higher net cash out related to roaming settlements partly offset by increased cash inflow related to trade accounts receivables.

Cash Flow

Cash and cash equivalents totaled CHF 320 million as of June 30, 2018, an increase of CHF 48 million compared to the cash position held as of December 31, 2017. The increase is mainly driven by the Q2 refinancing (CHF 187 million) and equity free cash flow generation of CHF 34 million, partly offset by dividend pay-out (CHF 180 million).

Cash Flow from Operating Activities

The year-over-year decrease of CHF 67 million in H1 2018, is primarily attributable to an outflow from net working capital and higher income tax payments. Taxable income in 2017 increased significantly compared to 2016 and led to higher income tax payments (relating to 2017) in the first six months in 2018 compared to prior year.

Cash Flow Used in Investing Activities

Purchase of tangible and intangible assets for the six-month period ended June 30, 2018, amounted to CHF 147 million which is in line with prior year. The higher purchase of intangible assets was offset by the higher sale of property plant and equipment in the amount of CHF 7 million as well as the lower purchase of property, plant and equipment.

Cash Flow Used in Financing Activities

Cash flow used in financing activities decreased by CHF 156 million in H1 2018 compared to the same period in prior year. The decrease is mainly due to the refinancing of the long-term loans and notes resulting in a net cash inflow of CHF 187 million. This was partially offset by a higher dividend payment of CHF 30 million.

Net Debt

The Group's consolidated debt position – consisting of a term loan B3 facility, senior secured notes and capital leases – amounted to CHF 1,570 million (nominal value: CHF 1,617 million compared to CHF 1,419 million as of December 31, 2017), of which CHF 3 million is expected to be paid within 12 months. The increase compared to December 31, 2017 is related to the Group's refinancing transactions in Q2 2018. Net debt at nominal value totaled CHF 1,297 million as of June 30, 2018, resulting in a net debt to EBITDA leverage ratio of 2.2× (December 31, 2017: 1.9×).

Dividend Proposal and Distribution Policy

At the Annual General Meeting on April 11, 2018, the payment of an ordinary dividend from statutory reserves from capital contributions in the total amount of CHF 180 million (CHF 4.00 per share) in respect of the 2017 financial year was approved. The dividend payment was made on April 18, 2018.

Sunrise confirms its long-term dividend policy of paying out at least 65% of equity-free cash flow, while continuing to target 85%, if debt/adjusted EBITDA leverage is below 2.0×. Sunrise is targeting an annual 4% to 6% dividend progression from 2018 to 2020. This guidance specification is introduced to buffer investors from near-term cash flow volatility due to landline access and spectrum payments. Upon meeting its 2018 guidance, Sunrise expects to propose a dividend in the range of CHF 4.15 to CHF 4.25 per share for 2018, paid out of capital contribution reserves in 2019.

Risks

Overview

To protect the Company's value, Sunrise operates a centralized risk management system that differentiates between strategic and operational risks. The Company's risk management plan includes risks from all business functions. Competition, uncertainty regarding the regulatory framework, impairment of supply relationships, and the security of and interruptions to network performance are the main risks and uncertainties the Company is facing. All identified risks are quantified (according to their probability of occurrence and impact) and tracked on a risk schedule. This risk schedule is subject to an annual discussion among the Sunrise Group's Board of Directors; the most recent meeting took place on November 8, 2017.

Risk Management Process

The Sunrise risk management system adheres to a comprehensive process that starts with approaching all Executive Leadership Team (ELT) members. The ELT then works together with the leaders of their subunits to perform an analysis of the internal and external environment as well as any changes that could potentially occur or have already taken place, while also taking into account the risks from previous years. During the subsequent consolidation performed by the central risk management unit, these risks are assigned to one of the following ten risk categories: competition, regulatory framework, business continuity operations, security, supply chain, financial, governance/legal compliance, market consolidation, employees, and innovation/business development. The ensuing discussions with the risk owners result in a detailed description and quantification of each individual risk and the determination of mitigation activities to be implemented, with the objective of preventing the risk from materializing or of limiting the risk exposure to a level that is acceptable to the Company. The risk management and resulting risk clusters are discussed among the ELT; the Audit Committee and the Sunrise Board of Directors are informed annually.

Main Risk Clusters

The following risks clusters are focus areas for Sunrise.

Market Dynamics

Price erosion and a further move by customers toward bundle plans that tend to offer more value for the same price could lead to an erosion in revenue. Additionally, aggressive promotional campaigns by Salt and other operators offering low-priced national flat rates, as well as competition in roaming prices, put pressure on mobile postpaid segment prices, while over-the-top services are cannibalizing international call and roaming voice revenue and are impacting the IPTV growth potential which could additionally result from a potential entry of Salt into the landline market. Sunrise actively monitors market developments and offers attractive bundles with flat rate components and promotions to cover customers' needs comprehensively. Significant change in Q1 since last risk assessment: Salt entered the landline market on March 30, 2018, which might impact the Sunrise IPTV growth potential. Sunrise will continue to actively monitor market developments and offers attractive bundles with flat rate components and promotions to cover customers' needs comprehensively.

Regulatory Framework

Under the current regulations on non-ionizing radiation, the activation of new frequencies requires a reduction in transmission power and thus less coverage and lower capacity, which is at odds with the increase in data traffic and the digitalization needs of customers (see section 8.8 Environmental Protection from Radio Emissions on page 25 of the Annual Report 2017). The announced allocation of new frequencies in 2018 bears the risk that it will, especially if the distribution is done through auction, tie up investments in frequencies that will not be utilizable without easing NIR thresholds. Sunrise is attempting to mitigate this risk by conducting intensified lobbying activities and by educating all stakeholders about the impact of a non-relaxation of the Swiss Ordinance on Protection against Non-Ionizing Radiation. Significant change in Q2 since last risk assessment: The announced allocation of new frequencies through auction in 2019 bears the risk that it will tie up investments in frequencies that will not be utilizable without easing NIR thresholds.

Fixnet Access Terms

Since Sunrise does not own a landline access network, and due to the lack of regulations regarding current access technologies, the Company is highly dependent on the access conditions offered by the individual network owners, such as Swisscom and various utility companies. Especially in places where there is only one supplier for last mile access, Sunrise has to rely on long-term collaboration with this supplier. As the suppliers are monopolists and the agreements are always limited in time, there is an imminent risk of the Company no longer being able to offer attractive landline products at attractive rates. Risk-mitigating actions include ongoing engagement with key suppliers regarding long-term strategic collaboration and applying consistent pressure in the regulatory arena regarding access to the landline market.

Cyber Security and Data Protection

Continuous technical innovation and digitalization open up new business opportunities and services for Sunrise customers. At the same time, the rising technical complexity of the solutions requested by customers and the growing volume of available data combined with shorter and shorter innovation cycles increase the complexity of technical implementations. They also entail a broader range of opportunities for attacks on such systems and solutions. Additionally, the power of cybercriminals and the number of attacks committed are increasing year after year.

The Company's mature internal information security framework ensures that Sunrise services meet the standards customers demand and that threats are recognized early enough to allow the implementation of appropriate preventive actions. Sunrise is certified in accordance with the ISO 27001 standard, and the certification covers all personnel, operations processes and technology infrastructure used for the processing, storing and transmission of customer information and communication.

Business Continuity Management

Telecom services are becoming more and more complex, and are thereby heavily dependent on highly sophisticated technological infrastructures. Software or device failures, human error, viruses or hacking can decrease service quality or, in the worst-case scenario, lead to system outages that can have an impact on the reputation and financial performance of the Company. In addition to the ISO 27001 information security management system, measures such as system and geographical redundancy, business continuity plans, deliberate selection of suppliers, and continuous improvement in network operations management and controls ensure that Sunrise is able to deliver the service quality and availability expected by its customers.

Financial Risks

The Company is exposed to a variety of financial risks, namely to market, credit and liquidity risks. A detailed description of the financial risks is given in Note 24 to the 2017 Consolidated Financial Statements of the Group.

Additional Disclosures

Material Affiliate Transactions

Change in the Board of Directors of SCG
At the ordinary Annual General Meeting on April 11, 2018, Ingrid Deltenre was elected to the Board of Directors as a new member by the General Meeting for a term of one year. All other Board members were re-elected for an additional one-year term.

Change in the Executive Leadership Team (ELT)
Dominik Rubli, Chief Administrative Officer and Member of the ELT since May 2016, has decided to leave the company by August 31, 2018. Patrick Alain Meier, Director Legal, will lead the position on an interim basis.

Dividend Payment
At the Annual General Meeting on April 11, 2018, the payment of an ordinary dividend from statutory reserves from capital contributions in the total amount of CHF 180 million (CHF 4.00 per share) in respect of the 2017 financial year was approved. The dividend payment was made on April 18, 2018.

Material Contractual Arrangements

The Group's refinancing transactions resulted in new material contractual arrangements in form of placing CHF 200 million Swiss domestic senior secured notes and in the amendment, extension and re-pricing of the existing term loan B facility (refer to "Major Events").

Certain Other Contractual Commitments

Total contractual and purchase commitments as of June 30, 2018, amounted to CHF 161 million, consisting of future investments in property, plant and equipment and intangible assets.

Credit Ratings

As of June 30, 2018, the corporate family rating for Sunrise Communications Holding S.A., 100% indirectly owned by Sunrise Communications Group AG, by the credit rating agency Fitch remains unchanged at BB+ with stable outlook. Standard & Poor's (S&P) upgraded the rating to BBB- with stable outlook on May 11, 2018. The notes and term loan facilities are rated BBB- by S&P and Fitch. Sunrise has withdrawn the solicited rating of Moody's in May 2018.

Acquisitions, Disposals and Recapitalization

No material acquisitions, disposals or recapitalization occurred in Q2 2018.

Material Development after the Balance Sheet Date

No material development occurred after the balance sheet date.

Research and Development

Sunrise is not currently investing in research and development itself but is partnering with its suppliers in order to benefit from their experience and know-how.

Outlook

2018 Guidance

Sunrise increases the guidance for 2018.

2018 revenue continues to be expected between CHF 1,830 million to CHF 1,870 million. Adjusted EBITDA guidance increases from CHF 580 million to CHF 595 million to CHF 595 million to CHF 605 million, driven by solid operational momentum and IFRS 15. While previous adjusted EBITDA guidance did not incorporate IFRS 15, the revised guidance includes a mid to high single digit positive CHF million impact from IFRS 15. 2018 Capex is expected to be within a range of CHF 283 million to CHF 323 million. This includes a CHF 56 million upfront investment for landline access at utilities. Excluding upfront investments, Capex guidance is expected to be between CHF 227 million to CHF 267 million. This includes a variable amount of CHF 47 million (2017: CHF 44 million) related to customer growth spending, allowing for the capitalization of routers and set-top boxes due to growth in Internet and TV, as well as investments in B2B projects and indoor coverage solutions.

Sunrise confirms its long-term dividend policy of paying out at least 65% of equity-free cash flow, while continuing to target 85%, if net debt/adjusted EBITDA leverage is below 2.0×. Sunrise is targeting an annual 4% to 6% dividend progression from 2018 to 2020. This guidance specification is introduced to buffer investors from near-term cash flow volatility due to landline access and spectrum payments. Upon meeting its 2018 guidance, Sunrise expects to propose a dividend in the range of CHF 4.15 to CHF 4.25 per share for 2018, paid out of capital contribution reserves in 2019.

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Sunrise Communications Group AG

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Condensed Consolidated Interim Statements of Income

CHFk	Note	H1 2018	H1 2017[1]	Q2 2018	Q2 2017[1]
		Unaudited	Unaudited	Unaudited	Unaudited
Revenue	**4,5,6**	**920,932**	**884,246**	**462,612**	**453,278**
Transmission costs and cost of goods sold		(324,344)	(300,239)	(159,207)	(155,526)
Other operating expenses	4	(208,481)	(192,013)	(104,256)	(96,332)
Wages, salaries and pension costs	4	(106,931)	(104,781)	(53,737)	(53,793)
Other income	7	2,652	3,077	1,328	1,529
Other expenses		220	20	302	-
Income before depreciation and amortization, net financial items and income taxes		**284,048**	**290,310**	**147,042**	**149,156**
Amortization		(126,536)	(125,538)	(63,481)	(62,372)
Depreciation and impairment losses		(85,819)	(87,013)	(44,225)	(39,731)
Operating income		**71,693**	**77,759**	**39,336**	**47,053**
Foreign currency gains, net		932	1,131	331	695
Financial income	4	15,052	80	15,051	77
Financial expenses	4	(30,492)	(25,459)	(19,838)	(12,700)
Net financial items	**8**	**(14,508)**	**(24,248)**	**(4,456)**	**(11,928)**
Income before income taxes		**57,185**	**53,511**	**34,880**	**35,125**
Income taxes		(16,445)	(13,916)	(10,861)	(8,400)
Net income		**40,740**	**39,595**	**24,019**	**26,725**
Net income attributable to equity holders of the parent company		**40,740**	**39,595**	**24,019**	**26,725**
Basic and diluted earnings per share (in CHF)	**4,9**	**0.90**	**0.88**	**0.53**	**0.59**

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

The accompanying Notes form an integral part of the consolidated financial statements.

Condensed Consolidated Interim Statements of Comprehensive Income

CHFk	**H1 2018**	H1 2017[1]	**Q2 2018**	Q2 2017[1]
	Unaudited	Unaudited	Unaudited	Unaudited
Net income	**40,740**	**39,595**	**24,019**	**26,725**
Actuarial gain related to defined benefit pension plans	17,315	8,556	10,298	5,723
Income tax effect	(3,515)	(1,745)	(2,090)	(1,167)
Net other comprehensive income not to be reclassified to profit and loss in subsequent periods	**13,800**	**6,811**	**8,208**	**4,556**
Other comprehensive income, net of tax	**13,800**	**6,811**	**8,208**	**4,556**
Total comprehensive income	**54,540**	**46,406**	**32,227**	**31,281**
Comprehensive income attributable to equity holders of the parent company	**54,540**	**46,406**	**32,227**	**31,281**

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

The accompanying Notes form an integral part of the consolidated financial statements.

Condensed Consolidated Interim Statements of Financial Position

Assets

CHFk	Note	June 30, 2018	December 31, 2017[1]
		Unaudited	Audited
Non-current assets			
Intangible assets		2,137,798	2,210,359
Property, plant and equipment	14	773,188	795,576
Non-current portion of trade and other receivables		56,441	58,206
Non-current portion of prepaid expenses		191	248
Non-current portion of contract assets		5,538	–
Contract costs	4	47,166	–
Total non-current assets		**3,020,322**	**3,064,389**
Current assets			
Inventories		40,533	57,474
Current portion of trade and other receivables		373,011	435,217
Current portion of contract assets		6,804	–
Current portion of prepaid expenses	14	21,423	6,481
Cash and cash equivalents		320,060	272,486
Total current assets		**761,831**	**771,658**
Total assets		**3,782,153**	**3,836,047**

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

The accompanying Notes form an integral part of the consolidated financial statements.

Equity and liabilities

CHFk	Note	June 30, 2018	December 31, 2017[1]
		Unaudited	Audited
Equity			
Common shares		45,069	45,000
Share premium		2,162,057	2,342,653
Other reserves		(776,143)	(776,143)
Accumulated deficit		(4,214)	(101,229)
Total equity	**10**	**1,426,769**	**1,510,281**
Non-current liabilities			
Non-current portion of loans and notes	11	1,562,908	1,389,956
Non-current portion of financial leases	11	3,789	4,597
Non-current portion of trade and other payables		923	5,308
Deferred tax liabilities		170,943	160,691
Non-current portion of provisions		69,615	70,892
Employee benefit obligations		69,832	84,769
Non-current portion of deferred income		6,368	9,136
Non-current portion of contract liabilities		181	–
Total non-current liabilities		**1,884,559**	**1,725,349**
Current liabilities			
Current portion of financial leases	11	3,231	4,899
Current portion of trade and other payables		417,102	540,989
Income tax payable		16,965	23,886
Current portion of provisions		4,650	3,574
Current portion of deferred income		27,618	26,984
Current portion of contract liabilities		908	–
Other current liabilities		351	85
Total current liabilities		**470,825**	**600,417**
Total liabilities		**2,355,384**	**2,325,766**
Total equity and liabilities		**3,782,153**	**3,836,047**

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

The accompanying Notes form an integral part of the consolidated financial statements.

Condensed Consolidated Interim Statements of Cash Flow

CHFk	Note	H1 2018	H1 2017[1]	Q2 2018	Q2 2017[1]
		Unaudited	Unaudited	Unaudited	Unaudited
Income before income taxes	**4**	**57,185**	**53,511**	**34,880**	**35,125**
Amortization		126,536	125,538	63,481	62,372
Depreciation and impairment losses		85,819	87,013	44,225	39,731
Gain on disposal of property, plant and equipment		(4)	(18)	(4)	–
Movement in pension		2,034	1,772	1,009	769
Movement in provisions		(555)	(1,234)	(141)	(1,052)
Change in net working capital	4,13	(30,584)	17,618	(15,301)	31,734
Cash flow from operating activities before net financial items and tax		**240,431**	**284,200**	**128,149**	**168,679**
Financial income	4,8	(15,052)	(80)	(15,051)	(77)
Financial expenses	4,8	30,492	25,459	19,838	12,700
Foreign currency gains, net		(932)	(288)	(593)	(28)
Interest received		1	80	–	77
Interest paid		(17,547)	(21,671)	(11,899)	(7,934)
Corporate income and withholding tax paid		(27,930)	(11,470)	(5,230)	(4,524)
Total cash flow from operating activities		**209,463**	**276,230**	**115,214**	**168,893**
Purchase of property, plant and equipment	14	(83,228)	(85,334)	(29,373)	(46,122)
Purchase of intangible assets		(71,053)	(61,518)	(52,277)	(40,235)
Sale of property, plant and equipment		7,533	18	4	–
Total cash flow used in investing activities		**(146,748)**	**(146,834)**	**(81,646)**	**(86,357)**
Proceeds from long-term loans and notes, net	11	692,016	(321)	692,016	–
Repayments of long-term loans and notes	11	(500,000)	–	(500,000)	–
Cost of early debt redemption	8	(5,315)	–	(5,315)	–
Costs relating to capital increase		(73)	–	–	–
Repayments of capital leases	11	(2,476)	(4,793)	(1,030)	(3,108)
Dividend payment		(180,276)	(149,850)	(180,276)	(149,850)
Other financing activities		(19,823)	(17,278)	(279)	(95)
Total cash flow used in financing activities		**(15,947)**	**(172,242)**	**5,116**	**(153,053)**
Total cash flow		**46,768**	**(42,846)**	**38,684**	**(70,517)**
Cash and cash equivalents as of January 1		272,486	214,175	–	–
Cash and cash equivalents as of April 1		–	–	280,909	242,106
Foreign currency impact on cash	8	806	288	467	28
Cash and cash equivalents as of June 30		**320,060**	**171,617**	**320,060**	**171,617**

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

The accompanying Notes form an integral part of the consolidated financial statements.

Condensed Consolidated Interim Statements of Changes in Equity

CHFk	Common shares	Share premium	Other reserves	Accumulated deficit	Total
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Equity as of January 1, 2017[1]	**45,000**	**2,489,962**	**(776,143)**	**(622,531)**	**1,136,288**
Net income for the period	–	–	–	39,595	39,595
Other comprehensive income	–	–	–	6,811	6,811
Total comprehensive income	**-**	**-**	**-**	**46,406**	**46,406**
Share-based payment	–	368	–	–	368
Dividend payment	–	(149,850)	–	–	(149,850)
Equity as of June 30, 2017[1]	**45,000**	**2,340,480**	**(776,143)**	**(576,125)**	**1,033,212**
Equity as of January 1, 2018	**45,000**	**2,342,653**	**(776,143)**	**(101,229)**	**1,510,281**
Impact of change in accounting policies[2]	–	–	–	42,475	42,475
Adjusted equity as of January 1, 2018	**45,000**	**2,342,653**	**(776,143)**	**(58,754)**	**1,552,756**
Net income for the period	–	–	–	40,740	40,740
Other comprehensive income	–	–	–	13,800	13,800
Total comprehensive income	**-**	**-**	**-**	**54,540**	**54,540**
Share-based payment	–	(4,871)	–	–	(4,871)
Dividend payment	–	(180,276)	–	–	(180,276)
Capital increase	69	4,551	–	–	4,620
Equity as of June 30, 2018	**45,069**	**2,162,057**	**(776,143)**	**(4,214)**	**1,426,769**

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).
[2] For further details see Note 4

The accompanying Notes form an integral part of the consolidated financial statements.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

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NOTE 1

General information

Sunrise Communications Group AG (SCG or the Company) was incorporated in Switzerland on January 13, 2015. The registered offices of the Company are located at Binzmühlestrasse 130, CH-8050 Zurich, Switzerland.

The condensed consolidated interim financial statements for the six-month period ended June 30, 2018, comprise SCG and its subsidiaries (together referred to as the Group or Sunrise). The Group's principal operating company, Sunrise Communications AG, is the second-largest full-range telecommunications provider in Switzerland and offers mobile voice and data, landline services (retail and wholesale voice, business and integration services) and landline Internet including Internet Protocol Television (IPTV) services to both Residential and Business customers as well as to other operators. Sunrise has its own national backbone landline and IP network as well as its own mobile network based on GSM / GPRS / EDGE / UMTS / HSPA and 4G / 4G+ technologies. In connection with the services it provides, Sunrise also resells handsets manufactured by third party suppliers.

These condensed consolidated interim financial statements were authorized for issue by the Group's Board of Directors on August 21, 2018.

NOTE 2

Basis of preparation

The condensed consolidated interim financial statements of the Group as of and for the six-month period ended June 30, 2018, have been prepared in compliance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board.

The condensed consolidated interim financial statements have been prepared on a historical cost basis. The preparation of these condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures at the reporting date. The accounting estimates and judgments considered material to the preparation of the financial statements are summarized in Note 3.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of December 31, 2017.

This is the first year of the Company's financial statements where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are described in Note 4.

Except where otherwise indicated, numbers are shown in CHF thousand in all tables and in CHF million in the text.

Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided. All ratios and variances are calculated using the precise underlying amount rather than the presented rounded amount.

Foreign currency translation

The financial statements are presented in Swiss francs, which is the functional currency of the parent company and each of its subsidiaries. The functional currency is the currency applied in the primary economic environment of each enterprise's operations. Transactions in currencies other than the functional currency are transactions in foreign currencies. Such transactions are translated at the transaction-date exchange rates. Foreign exchange gains and losses arising from differences between transaction-date and settlement-date rates are recognized as net financial items in the condensed consolidated interim statement of

NOTE 2

Basis of preparation

income. Cash, loans and other amounts receivable or payable in foreign currencies (monetary assets and liabilities), if any, are translated into the functional currency at the official exchange rates as quoted at the reporting date.

The following table summarizes the principal exchange rates used by the Group (shown against CHF):

CURRENCY	BALANCE SHEET		INCOME STATEMENT AND CASH FLOW	
CHF	**June 30, 2018**	December 31, 2017	**January 1 – June 30, 2018**	January 1 – June 30, 2017
Euro	1.1570	1.1703	1.1847	1.0851
US Dollar	0.9906	0.9743	0.9754	1.0149

NOTE 3

Significant accounting policies

The preparation of the condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Those estimates affect mainly provisions, goodwill impairment tests, employee benefit obligations, allowance for doubtful receivables and direct taxes. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last consolidated financial statements for the financial year ended December 31, 2017. The change in accounting policies for IFRS 15 and IFRS 9 are described in Note 4.

NOTE 4

New accounting standards

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as of and for the year ended December 31, 2017. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as of and for the year ending December 31, 2018.

The Company has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from January 1, 2018. A number of other new standards are effective from January 1, 2018, but they do not have a material effect on the Company's financial statements.

The effect of initially applying IFRS 15 and IFRS 9 is mainly attributed to the following effects:
- Capitalization of costs to obtain a contract,
- Reallocation of revenue to hardware sales,
- Recognition of activation fees and uneven discounts,
- Debt modification adjustments, and
- Increase in impairment losses recognized on financial assets.

NOTE 4

New accounting standards

Restatement of equity due to accounting policy changes

The effect of applying IFRS 15 led to an equity increase of CHF 45.1 million before tax (net of tax CHF 35.9 million). For IFRS 9, the effect of the initial application led to an equity increase of CHF 8.3 million (net of tax CHF 6.6 million).

Impact on the financial statements

The following tables summarize the impact of adopting IFRS 9 and IFRS 15 on the Group's condensed consolidated interim statements of income for the six-month period ended June 30, 2018 and on its condensed consolidated interim statements of financial position as of June 30, 2018.

CHFk **January 1 – June 30, 2018**	**IMPACT OF CHANGES IN ACCOUNTING POLICIES** **As reported**	**Adjustments**	Balances without adoption of new accounting policies
	Unaudited	Unaudited	Unaudited
Income Statement			
Revenue	920,932	246	921,178
Transmission costs and cost of goods sold	(324,344)	2,003	(322,341)
Other operating expenses	(208,481)	(5,659)	(214,140)
Wages, salaries and pension costs	(106,931)	(944)	(107,875)
Financial income	15,052	(15,051)	1
Financial expenses	(30,492)	1,133	(29,359)
Income taxes	(16,445)	3,710	(12,735)
Other[1]	(208,551)	–	(208,551)
Net income	**40,740**	**(14,562)**	**26,178**
Basic and diluted earnings per share (in CHF)	0.90	(0.32)	0.58

[1] Includes all other line items not affected by the change in accounting policies

NOTE 4

New accounting standards

IMPACT OF CHANGES IN ACCOUNTING POLICIES

CHFk **June 30, 2018**	**As reported**	**Adjustments**	Balances without adoption of new accounting policies
	Unaudited	Unaudited	Unaudited
Assets			
Contract costs	47,166	(47,166)	–
Trade and other receivables	429,452	11,398	440,850
Contract assets	12,342	(12,342)	–
Other[1]	3,293,193	–	3,293,193
Total assets	**3,782,153**	**(48,110)**	**3,734,043**
Liabilities			
Deferred tax liabilities	170,943	(14,956)	155,987
Income tax payable	16,965	383	17,348
Contract liabilities	1,089	(1,089)	–
Non-current portion of loans and notes	1,562,908	24,588	1,587,496
Other[1]	603,479	–	603,479
Total liabilities	**2,355,384**	**8,926**	**2,364,310**
Equity			
Accumulated deficit	(4,214)	(57,036)	(61,250)
Other[1]	1,430,983	–	1,430,983
Total equity	**1,426,769**	**(57,036)**	**1,369,733**

[1] Includes all other line items not affected by the change in accounting policies

IMPACT OF CHANGES IN ACCOUNTING POLICIES

CHFk **January 1 – June 30, 2018**	**As reported**	**Adjustments**	Balances without adoption of new accounting policies
	Unaudited	Unaudited	Unaudited
Cash Flow			
Income before income taxes	57,185	(18,272)	38,913
Change in net working capital	(30,584)	4,354	(26,230)
Financial income	(15,052)	15,051	(1)
Financial expenses	30,492	(1,133)	29,359
Other[1]	167,422	–	167,422
Total cash flow from operating activities	**209,463**	**-**	**209,463**
Total cash flow used in investing activities	**(146,748)**	**-**	**(146,748)**
Total cash flow used in financing activities	**(15,947)**	**-**	**(15,947)**

[1] Includes all other line items not affected by the change in accounting policies

NOTE 4

New accounting standards

IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces old revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. The Group has adopted the new standard on the required effective date using the partial retrospective method through a corresponding adjustment to equity as of January 1, 2018 (cumulative method).

According to IFRS 15 Revenue from Contracts with Customers, revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard provides for a single, principles-based, five-step model which is to be applied to all contracts with customers and where the transaction price is generally allocated to each separate performance obligation in proportion to the stand-alone selling prices. Also, revenue is recognized when the customer obtains control of the promised goods or services.

For multi-component contracts (mobile subscription with subsidized mobile device), revenue must be reallocated to the already delivered components (mobile device) meaning that revenue is recognized earlier. In the balance sheet, this leads to the recognition of a contract asset, i.e., a legally not yet entitled right to consideration from a contract with a customer. In contrast, activation fees lead to the recognition of a contract liability, i.e., the obligation to transfer goods or services to a customer for which the company has received consideration from the customer. Assets and liabilities related to rights and obligations in a contract are recorded net in the statement of financial position. While the revenue amount remains unchanged over the contractual term, the revenue from hardware sales increases and the revenue from services is reduced accordingly.

In the comparative period, revenue was measured at the fair value of the consideration received or receivable. Revenue from sale of goods was recognized when the significant risks and rewards of ownership had been transferred to the customer, recovery of the consideration was probable, the associated costs and possible return of goods could be estimated reliably.

The following is a description of the principal activities – separated by reportable segments – from which the Group generates its revenue. For more detailed information about reportable segments, see Note 5.

The residential segment generates revenue from mobile calling, landline, Internet and TV services from a single source. Mobile voice and data services are provided on both a postpaid and prepaid basis. Contracts for mobile subscriptions have no contract duration; whereas home products have a minimal contract duration of 12 months. The major part of the contracts do not contain a bundle arrangement of hardware and service. For this segment, the Group recognizes the revenue on a contract by contract basis (Contract-by-Contract method). The most significant adjustments on revenue relate to the timing of recognition (i.e., one-time fees), the amount of revenue to be recognized (uneven discounts) and its allocation to the various performance obligations.

The business segment generates revenue from a range of products and services, from mobile offers and landline voice, Internet and data solutions, to systems integration and management of services. The specific needs of customers are met with a portfolio of standardized products for small businesses, as well as customized, scalable and secure offers for large enterprises. For some part of this segment, the portfolio approach was applied for

NOTE 4

New accounting standards

which the most significant adjustments reallocate a portion of the revenue to be received over the contract duration related to mobile devices delivered at contract inception.

The wholesale segment generates revenue from mobile voice and data as well as Internet services to other national and international carriers. For this segment, the Group came to the conclusion that no significant adjustments have to be recognized.

Contract balances

The following table provides the information about trade receivables, contract assets and contract liabilities from contracts with customers.

CHFk	**June 30, 2018**	January 1, 2018
Trade receivables	427,391	489,664
Contract assets	12,342	6,056
Contract liabilities	(1,089)	(1,322)

Contract costs

In the comparative period, commissions paid to retailers or employees were recognized according to IAS 18 as expenses when incurred in other operating expenses for retailers and in wages, salaries and pension costs for employees. According to IFRS 15, commission fees directly attributable to a contract, are capitalized and recognized as expenses over the contractual term. This means, capitalized commission fees are amortized when the related revenues are recognized. For the six-month period ended June 30, 2018, the amount of amortization was CHF 13.9 million and there was no impairment loss in relation to the costs capitalized.

IFRS 9 Financial instruments

IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. It includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model (ECL) for calculating impairment of financial assets (incl. accrued income/credit notes and contract assets regarding IFRS 15) as well as new general hedge accounting requirements. Changes in accounting policies resulting from the adoption of IFRS 9 have not been applied retrospectively.

In order to comply with the ECL model, the Group has elected to measure loss allowances for trade and other receivables, accrued income/credit notes and contract assets at an amount equal to lifetime ECLs. This requires considerable judgement about how changes in economic indicators affect ECLs. When determining whether the credit risk of a financial asset has increased significantly the Group includes both quantitative and qualitative information and analysis, based on its historical experience, internal credit assessment and forward-looking information. For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. Furthermore, the Group builds a loss allowance for trade and other receivables not yet due which is newly requested by IFRS 9.

The Group has determined that the application of IFRS 9's impairment requirements as of January 1, 2018 results in additional impairment allowances amounting CHF 2.4 million as follows:

– Trade and other receivables CHF 1.8 million,
– Contract assets recognized on adoption of IFRS 15 CHF 0.1 million, and
– Accrued income/credit notes CHF 0.5 million.

NOTE 4

New accounting standards

The economic indicators impacting the forward looking element changed positively as of June 30, 2018, leading to a decrease of CHF 0.3 million in the loss allowance.

Furthermore IFRS 9 includes a new guidance relating to non-substantial modifications or exchanges of financial liabilities. A gain or loss resulting from non-substantial modifications in debt has to be recognized through Profit and Loss at the time of the modification. The gain is equal to the difference between the present value of the cash flows under the original and modified terms discounted by the original effective interest rate.

Due to the refinancing transactions in Q2 2018, that included a re-pricing of the existing term loan, the Group had to apply the new debt modification adjustments in order to be compliant with IFRS 9. The total effect amounts to CHF 13.9 million and is reflected in net financial items (net of deferred tax CHF 11.1 million). Since the approach related to debt modification adjustments needs to be applied retrospectively, the Group has recognized the adjustment linked to the first re-pricing from December 2016 (25 bp reduction) in opening accumulated deficit on January 1, 2018. The adjustment resulted in an increase in equity of CHF 10.7 million (net of tax CHF 8.5 million).

NOTE 5

Segment reporting

Operating segments have been determined based on management reports reviewed by the Board of Directors. The Group's organizational structure reflects the different customer groups to which the Group provides its telecommunications products and services: Residential, Business, Wholesale and a reportable Head Office segment which includes the finance, IT and technology functions of the Group.

Residential provides fixed line and mobile services to residential end customers as well as sales of handsets. Through its investments in local loop unbundling and IPTV as well as its contractual arrangements with Swiss Fibre Net AG, a joint venture of local energy providers in Switzerland, and Swisscom, Sunrise focuses on selling its products in the Swiss telecommunications market by marketing bundled offers in Fixnet/Internet, mobile and IPTV.

Business provides a full range of products and services, from fixed-line and mobile communications to Internet and data services as well as integration services to different business areas: small office and home office, small and medium-sized enterprises and large corporate clients.

The Wholesale product portfolio covers voice, data, Internet and infrastructure services such as carrier and roaming services, which are marketed to national and international telecom service providers as well as mobile virtual network operators.

Head Office activities comprise support units such as Network, IT and Operations (customer care) as well as staff functions like Finance, Human Resources and Strategy. Furthermore, certain fees and sundry revenue and payments of reminder fees are allocated to this operating segment.

Performance is measured based on EBITDA as included in the internal financial reports reviewed by the Board of Directors. EBITDA is defined as operating income before depreciation and amortization, net financial result items and income tax expenses. The EBITDA earned by each segment is considered an adequate measure of the operating performance of the segments reported to the Board of Directors for the purposes of resource allocation and performance assessment. Assets and liabilities are not allocated to operating segments in the management reports reviewed by the Board of Directors, as the review focuses on changes in net working capital on a Group level.

Inter-segment pricing is determined on an arm's length basis.

NOTE 5

Segment reporting

Activities

CHFk January 1 – June 30	RESIDENTIAL 2018	RESIDENTIAL 2017[2]	BUSINESS 2018	BUSINESS 2017[2]	WHOLESALE[1] 2018	WHOLESALE[1] 2017[2]	HEAD OFFICE ACTIVITIES 2018	HEAD OFFICE ACTIVITIES 2017[2]	TOTAL 2018	TOTAL 2017[2]
Revenue										
External customers	661,424	626,868	135,120	129,448	104,295	108,952	20,093	18,978	920,932	884,246
Inter-segment revenue	–	–	–	–	–	912	–	–	–	912
Total	**661,424**	**626,868**	**135,120**	**129,448**	**104,295**	**109,864**	**20,093**	**18,978**	**920,932**	**885,158**
Transmission costs and costs of goods sold										
External customers	(213,573)	(187,200)	(45,091)	(39,567)	(65,603)	(73,472)	(77)	–	(324,344)	(300,239)
Inter-segment costs	–	(912)	–	–	–	–	–	–	–	(912)
Total	**(213,573)**	**(188,112)**	**(45,091)**	**(39,567)**	**(65,603)**	**(73,472)**	**(77)**	**-**	**(324,344)**	**(301,151)**
Other operating expenses	(64,959)	(68,272)	(10,490)	(9,311)	(2,204)	(2,372)	(130,828)	(112,058)	(208,481)	(192,013)
Wages, salaries and pension costs	(28,947)	(30,034)	(20,779)	(18,072)	(2,223)	(2,133)	(54,982)	(54,542)	(106,931)	(104,781)
Other income	–	12	–	–	–	–	2,652	3,065	2,652	3,077
Other expenses	(11)	–	–	–	–	–	231	20	220	20
EBITDA	**353,934**	**340,462**	**58,760**	**62,498**	**34,265**	**31,887**	**(162,911)**	**(144,537)**	**284,048**	**290,310**

[1] Including hubbing revenue of CHF 54.0 million generated in the six-month period ended as of June 30, 2018, and CHF 60.4 million generated in the six-month period ended as of June 30, 2017.
[2] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

NOTE 5

Segment reporting

Activities

CHFk April 1 – June 30	RESIDENTIAL 2018	RESIDENTIAL 2017[2]	BUSINESS 2018	BUSINESS 2017[2]	WHOLESALE[1] 2018	WHOLESALE[1] 2017[2]	HEAD OFFICE ACTIVITIES 2018	HEAD OFFICE ACTIVITIES 2017[2]	TOTAL 2018	TOTAL 2017[2]
Revenue										
External customers	335,280	323,708	69,307	65,944	48,050	54,151	9,975	9,475	462,612	453,278
Inter-segment revenue	–	–	–	–	–	394	–	–	–	394
Total	**335,280**	**323,708**	**69,307**	**65,944**	**48,050**	**54,545**	**9,975**	**9,475**	**462,612**	**453,672**
Transmission costs and costs of goods sold										
External customers	(107,054)	(102,070)	(23,256)	(20,812)	(28,841)	(32,644)	(56)	–	(159,207)	(155,526)
Inter-segment costs	–	(394)	–	–	–	–	–	–	–	(394)
Total	**(107,054)**	**(102,464)**	**(23,256)**	**(20,812)**	**(28,841)**	**(32,644)**	**(56)**	**-**	**(159,207)**	**(155,920)**
Other operating expenses	(33,611)	(35,025)	(5,179)	(4,742)	(1,150)	(1,264)	(64,316)	(55,301)	(104,256)	(96,332)
Wages, salaries and pension costs	(14,463)	(14,731)	(10,435)	(9,343)	(1,136)	(1,096)	(27,703)	(28,623)	(53,737)	(53,793)
Other income	–	5	–	–	–	–	1,328	1,524	1,328	1,529
Other expenses	–	–	–	–	–	–	302	–	302	-
EBITDA	**180,152**	**171,493**	**30,437**	**31,047**	**16,923**	**19,541**	**(80,470)**	**(72,925)**	**147,042**	**149,156**

[1] Including hubbing revenue of CHF 23.0 million generated in the three-month period ending as of June 30, 2018, and CHF 29.5 million generated in the three-month period ending as of June 30, 2017.

[2] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

Reconciliation of net income before interest, tax, depreciation and amortization (EBITDA)

CHFk	H1 2018	H1 2017[1]	Q2 2018	Q2 2017[1]
EBITDA from reportable segments	**284,048**	**290,310**	**147,042**	**149,156**
Unallocated:				
– Amortization	(126,536)	(125,538)	(63,481)	(62,372)
– Depreciation	(85,819)	(87,013)	(44,225)	(39,731)
– Net financial items	(14,508)	(24,248)	(4,456)	(11,928)
Income before income taxes	**57,185**	**53,511**	**34,880**	**35,125**

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

NOTE 6

Revenue

CHFk	H1 2018	H1 2017[1]	Q2 2018	Q2 2017[1]
Mobile services	617,037	581,550	314,653	302,603
– Thereof mobile postpaid	*392,238*	*372,592*	*202,623*	*191,789*
– Thereof mobile prepaid	*50,083*	*62,506*	*24,800*	*32,112*
– Thereof mobile hardware	*130,754*	*107,163*	*65,097*	*59,575*
Landline services	167,756	185,757	79,062	91,161
– Thereof landline voice	*63,147*	*71,226*	*31,176*	*34,692*
– Thereof hubbing	*53,993*	*60,444*	*23,032*	*29,547*
Landline internet and TV	136,139	116,939	68,897	59,514
Total	**920,932**	**884,246**	**462,612**	**453,278**

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

CHFk	H1 2018	H1 2017[1]	Q2 2018	Q2 2017[1]
Sales of goods	151,781	123,727	74,512	66,119
Sales of services	769,151	760,519	388,100	387,159
Total	**920,932**	**884,246**	**462,612**	**453,278**

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

Mobile services include revenue from voice and data traffic, subscription and connection fees for mobile devices and interconnection traffic as well as roaming revenue from group subscribers traveling abroad.

Landline services include revenue from traffic, subscription and connection for PSTN / ISDN and Voice over Internet Protocol and other revenue from services, which primarily relate to business services.

Internet services comprise revenue from subscription fees for xDSL, related traffic charges for Internet traffic and IPTV services.

Sales of goods include sales of mobile devices and distribution and sales of ICT and telecommunication products in the e-business sector as well as installation, operation and maintenance services for these products.

NOTE 7

Other income

CHFk	**H1 2018**	H1 2017	**Q2 2018**	Q2 2017
Other income				
Early termination fees	1,714	661	856	371
Sub-leases	934	2,397	468	1,157
Other	4	19	4	1
Total	**2,652**	**3,077**	**1,328**	**1,529**

NOTE 8

Net financial items

CHFk **January 1 – June 30, 2018**	Debt modification adjustment	Debt redemption costs	Interest	**Total financial income/ (expenses) before foreign currency**	Net foreign currency gains/(losses)	**Total**
Income						
Cash and cash equivalents	–	–	–	–	806	806
Other	15,051	–	1	15,052	126	15,178
Total	**15,051**	**-**	**1**	**15,052**	**932**	**15,984**
Expenses						
Financial liabilities measured at amortized cost	–	(5,315)	(22,030)	(27,345)	–	(27,345)
Other	–	–	(3,147)	(3,147)	–	(3,147)
Total	**-**	**(5,315)**	**(25,177)**	**(30,492)**	**-**	**(30,492)**
Net financial items	**15,051**	**(5,315)**	**(25,176)**	**(15,440)**	**932**	**(14,508)**

CHFk January 1 – June 30, 2017	Interest	**Total financial income/ (expenses) before foreign currency**	Net foreign currency gains/(losses)	**Total**
Income				
Cash and cash equivalents	1	1	288	289
Other	79	79	843	922
Total	**80**	**80**	**1,131**	**1,211**
Expenses				
Financial liabilities measured at amortized cost	(22,700)	(22,700)	–	(22,700)
Other	(2,759)	(2,759)	–	(2,759)
Total	**(25,459)**	**(25,459)**	**-**	**(25,459)**
Net financial items	**(25,379)**	**(25,379)**	**1,131**	**(24,248)**

NOTE 8

Net financial items

CHFk **April 1 – June 30, 2018**	Debt modification adjustment	Debt redemption costs	Interest	**Total financial income/ (expenses) before foreign currency**	Net foreign currency gains/(losses)	**Total**
Income						
Cash and cash equivalents	–	–	–	–	467	467
Other	15,051	–	–	15,051	(136)	14,915
Total	**15,051**	**–**	**–**	**15,051**	**331**	**15,382**
Expenses						
Financial liabilities measured at amortized cost	–	(5,315)	(13,351)	(18,666)	–	(18,666)
Other	–	–	(1,172)	(1,172)	–	(1,172)
Total	**–**	**(5,315)**	**(14,523)**	**(19,838)**	**–**	**(19,838)**
Net financial items	**15,051**	**(5,315)**	**(14,523)**	**(4,787)**	**331**	**(4,456)**

CHFk April 1 – June 30, 2017	Interest	**Total financial income/ (expenses) before foreign currency**	Net foreign currency gains/(losses)	**Total**
Income				
Cash and cash equivalents	1	1	28	29
Other	76	76	667	743
Total	**77**	**77**	**695**	**772**
Expenses				
Financial liabilities measured at amortized cost	(11,299)	(11,299)	–	(11,299)
Other	(1,401)	(1,401)	–	(1,401)
Total	**(12,700)**	**(12,700)**	**–**	**(12,700)**
Net financial items	**(12,623)**	**(12,623)**	**695**	**(11,928)**

NOTE 9

Earnings per share

Basic earnings per share is calculated by dividing net profit for the period attributable to ordinary equity holders of the parent company by the weighted number of ordinary shares outstanding during the period.

	H1 2018	H1 2017[1]	**Q2 2018**	Q2 2017[1]
Basic earnings per share				
Net income attributable to equity holders of SCG (CHFk)	40,740	39,595	24,019	26,725
Weighted average number of shares outstanding	45,055,606	45,000,000	45,069,028	45,000,000
Basic earnings per share (in CHF)	**0.90**	**0.88**	**0.53**	**0.59**
Diluted earnings per share				
Net income attributable to equity holders of SCG (CHFk)	40,740	39,595	24,019	26,725
Weighted average number of shares outstanding	45,149,830	45,130,724	45,163,252	45,130,724
Diluted earnings per share (in CHF)	**0.90**	**0.88**	**0.53**	**0.59**

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

If the vesting conditions were fully met as of June 30, 2018, a maximum of 108,098 shares (December 31, 2017: 193,748) would have a dilutive effect.

NOTE 10

Equity

CHFk	**June 30, 2018**	December 31, 2017[2]
Common shares	45,069	45,000
Share premium[1]	2,162,057	2,342,653
Other reserve	(776,143)	(776,143)
Accumulated deficit	(4,214)	(101,229)
Total equity	**1,426,769**	**1,510,281**

[1] Share premium includes reserves which are freely available for distribution of dividends.
[2] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

Share capital

As of June 30, 2018, the total number of authorized and issued ordinary shares comprised 45,069,028 shares with a nominal value of CHF 1 each. Holders of these shares are entitled to dividends and one vote per share at General Meetings of the Company. In connection with the management long-term incentive programs, the share capital was increased by 69,028 shares on February 9, 2018.

Other reserve

The change in other reserve represents the difference in the fair value of the contribution in kind and the book value of assets and liabilities as part of the business restructuring in 2015. Please see the 2015 financial report for more information.

NOTE 10

Equity

Accumulated deficit

Actuarial gains and losses, net of taxes, the impact of the business restructuring, the results for the current period and earnings or losses carried forward are recognized in accumulated deficit.

Dividend

At the Annual General Meeting on April 11, 2018, the payment of an ordinary dividend from statutory reserves from capital contributions in the total amount of CHF 180.3 million (CHF 4.00 per share) in respect of the 2017 financial year was approved. The dividend payment was made on April 18, 2018.

NOTE 11

Borrowings

CHFk	Nominal value at inception	Capitalized debt issuance cost [1]	Debt Modification Revaluation[5]	Debt repayments	June 30, 2018	December 31, 2017
Floating rate						
Term loan B3 – CHF[2]	1,410,000	(21,442)	(24,588)	–	1,363,970	894,331
Fixed rate						
Senior secured notes – CHF[3]	500,000	–	–	(500,000)	–	495,625
Senior secured notes – CHF[4]	200,000	(1,062)	–	–	198,938	–
Total loans and notes	**2,110,000**	**(22,504)**	**(24,588)**	**(500,000)**	**1,562,908**	**1,389,956**
Other						
Debt relating to finance leases	–	–	–	(2,476)	7,020	9,496
Total borrowings					**1,569,928**	**1,399,452**
Thereof current					*3,231*	*4,899*
Thereof non-current					*1,566,697*	*1,394,553*

[1] At issuance of the borrowings, respectively at the debt modification date
[2] Issued February 13, 2015 (CHF 1,000.0 million), February 18, 2015 (CHF 360.0 million); partially repaid on August 4, 2017 (CHF 450.0 million) and issued June 19, 2018 (CHF 500.0 million)
[3] Issued February 18, 2015, repaid on June 20, 2018
[4] Issued June 27, 2018
[5] Thereof CHF 15.1 million reflected in financial income, CHF 1.1 million in financial expenses and CHF 10.7 million in accumulated deficit as of January 1, 2018

The Group's financial indebtedness is governed by financial covenants specified in the senior facilities agreement dated February 9, 2015. The main covenant is the leverage ratio. The Group is requested to perform covenant testing as of each half year date within the financial year of the Group. The last covenant testing, performed as of June 30, 2018, showed that the Group was in compliance with the applicable financial covenants.

Liabilities relating to finance leases are related primarily to lease agreements on fiber networks.

In Q2 2018 the Group completed the amendment and extension as well as re-pricing of its existing senior facilities agreement. The existing term loan B facility ("TLB") has been increased by CHF 500.0 million to CHF 1,410.0 million. The revolving credit facility ("RCF") remains unchanged at CHF 200.0 million and is currently undrawn. The leverage dependent

NOTE 11
Borrowings

margins of the facilities were reduced by 25 bps and 30 bps throughout the margin grid for the TLB and the RCF, respectively. The new facilities have a maturity of 5 years. The proceeds of the increased TLB facility were used to redeem the outstanding CHF 500.0 million 2.125% senior secured notes due March 2022. Furthermore, the Group placed CHF 200.0 million inaugural Swiss domestic senior secured notes due 2024 with a coupon of 1.5%. The issue price was set at 100.2% of the nominal amount and redemption will be at par.

All financial liabilities are measured at amortized costs. In connection with the above mentioned transactions the Group incurred transaction costs in the amount of CHF 10.2 million which have been capitalized as debt issuance costs on the consolidated statement of financial position. Additionally, capitalized transaction costs of CHF 4.0 million related to the repaid senior secured notes were released.

NOTE 12

Fair value estimation

The fair value of current financial assets and liabilities at amortized cost is assumed to approximate their carrying amounts due to the short-term nature of these financial instruments.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: Techniques that use inputs with a significant effect on the recorded fair value and that are not based on observable market data

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to calculate the fair value of an instrument are observable, the instrument is included in level 2.

There were no transfers between the different hierarchy levels as of June 30, 2018 and December 31, 2017.

The table below shows a comparison by class of the carrying amounts and fair values of the Group's financial instruments carried in the condensed consolidated interim financial statements:

NOTE 12

Fair value estimation

CHFk **June 30, 2018**	**CARRYING AMOUNT (BY MEASUREMENT BASIS)** Amortized cost	**Total**	Comparison Fair value[1]
Financial assets			
Cash and cash equivalents	320,060	320,060	
Trade and other receivables	428,949	428,949	
Contract assets	12,342	12,342	
Financial liabilities			
Trade payables and other payables	(406,712)	(406,712)	
Loans and notes	(1,562,908)	(1,562,908)	(1,611,300)
Financial leases	(7,020)	(7,020)	
Other current liabilities	(351)	(351)	

[1] The fair value of borrowings for disclosure purposes is based on quoted prices in an active market for identical liabilities.

CHFk December 31, 2017	**CARRYING AMOUNT (BY MEASUREMENT BASIS)** Amortized cost	**Total**[2]	Comparison Fair value[1]
Financial assets			
Cash and cash equivalents	272,486	272,486	
Trade and other receivables	493,359	493,359	
Financial liabilities			
Trade payables and other payables	(536,080)	(536,080)	
Loans and notes	(1,389,956)	(1,389,956)	(1,415,150)
Financial leases	(9,496)	(9,496)	
Other current liabilities	(85)	(85)	

[1] The fair value of borrowings for disclosure purposes is based on quoted prices in an active market for identical liabilities.
[2] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

NOTE 13

Change in net working capital

CHFk	**H1 2018**	H1 2017[1]	**Q2 2018**	Q2 2017[1]
Change in inventories	16,941	(11,593)	14,347	(7,846)
Change in trade and other receivables	51,987	31,706	7,183	(2,841)
Change in trade and other payables	(71,756)	23,432	(35,487)	36,942
Change in contract assets	(6,285)	–	(3,478)	–
Change in contract liabilities	(233)	–	(381)	–
Change in contract costs	(4,279)	–	(1,633)	–
Change in other items, net	(16,959)	(25,927)	4,148	5,479
Total	**(30,584)**	**17,618**	**(15,301)**	**31,734**

[1] The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated (see Note 4).

Net working capital includes current assets and liabilities as well as non-current prepaid expenses, long-term trade receivables and deferred income. Changes in trade and other payables related to the mobile license and non-cash capital expenditures related to Indefeasible Rights of Use (IRU) are excluded.

For H1 2018 the change in net working capital resulted in a negative change of CHF 30.5 million. This is mainly driven by prepaid leases and maintenance contracts (negative change in other items of CHF 17.0 million) as well as IFRS 15 related to net working capital accounts (CHF 10.8 million). The negative changes in trade and other payables (CHF 71.8 million) caused by payments of mobile phones and tablets bought in Q4 2017 and roaming settlements were mostly offset by settlements of discounts on roaming and access lines (positive change in trade and other receivables of 52.0 million) as well as a reduction of inventory (positive change in inventory of CHF 16.9 million).

Compared to the same period in 2017, the change in net working capital for H1 2018 showed a decline of CHF 48.2 million mainly driven by the following effects: Applying new IFRS accounting standards (IFRS 15, IFRS 9) and higher net cash out related to roaming settlements partly offset by increased cash inflow related to trade accounts receivables.

NOTE 14

Other balance sheet items

Property, plant and equipment

During the six-month period ended June 30, 2018, the Group acquired assets of CHF 63.6 million (H1 2017: CHF 71.3 million). In the same period, the Group paid CHF 83.2 million (H1 2017: CHF 85.3 million) for property, plant and equipment additions.

Current portion of prepaid expenses

The balance mainly consists of prepaid rent expenses and prepaid IT related payments for licenses and services. The prepayments are normally made at the beginning of the year and amortized over the contractual duration. Contracts with duration of more than 1 year are split into a current and non-current portion.

NOTE 15

Contractual commitments

The total contractual and purchase commitments as of June 30, 2018, amounted to CHF 160.8 million (December 31, 2017: CHF 87.7 million) consisting of future investments in property, plant and equipment and intangible assets.

NOTE 16

Financial risk management

The Group operates a centralized risk management system that distinguishes between strategic and operating risks. The Group's overall risk management program focuses on the unpredictability of financial market risks and seeks to minimize potential adverse effects on the Group's financial performance. All identified risks are quantified (according to their realization probability and impact) and noted on a risk schedule. This risk schedule is subject to an annual detailed review and discussion process by the Board of Directors. The Group is exposed to a variety of financial risks, namely market risk, credit risk and liquidity risk.

The Group's financial risk management is governed by policies approved by key management personnel. These policies provide guidelines for overall risk management as well as specific areas such as interest rate risk.

NOTE 17

Events after the balance sheet date

There are no significant events to report after the balance sheet date.

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To the Board of Directors of
Sunrise Communications Group AG, Zurich

Zurich, 21 August 2018

Report on the review of condensed consolidated interim financial statements

Introduction

We have reviewed the condensed consolidated interim financial statements (consolidated statement of income, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and notes; pages 16 to 41) of Sunrise Communications Group AG for the three-month period from 1 April 2018 to 30 June 2018 and the six-month period from 1 January 2018 to 30 June 2018. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

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